

## Community Development Commission

December 22, 2009

To: Each Deputy

From: *Bobette A. Glover*  
for Sean Rogan, Executive Director

### **SUBJECT: LEASE NEGOTIATIONS AT 2 CORAL CIRCLE, MONTEREY PARK**

As a follow up to our recent discussions and my December 8<sup>th</sup> memorandum to the Board, I am providing additional information regarding the status of our lease negotiations and a comparative analysis of the potential savings that could be achieved by relocating to a more efficient and cost effective facility.

#### Historical Information

We moved to our current location in 1994 under a ten-year lease. In 2005, we requested that the Board approve a five-year extension which doubled our rent from \$49,474 and \$97,143. We currently pay \$1.14 per square foot (nnn) for 85,300 rsf.

#### Actions Taken by the CDC

In May 2009 my staff met with our Lessor, Miller Brothers Coral Circle, LCC (Miller Brothers) and advised them of our goal to consolidate our staff at a single location to achieve operating efficiencies. To this end, we needed to extend our lease for 2 ½ years, to June 30, 2012, to make it coterminous with the lease expiration at the Santa Fe Springs office. We followed up on September 3<sup>rd</sup>, submitting a non-binding offer to them, to extend the lease at a reduced rental rate reflective of current market conditions. Our offer of \$1.00 per square foot (nnn) was rejected in a letter dated September 18, 2009. It stated that they expected a five-year renewal at an increased rate ranging between 18.4% - 27.2 % over the current rate, in the range of \$1.35 - \$1.45 per square foot (nnn).

#### Major Building Deficiencies

Contrary to the representations made by Miller Brothers, the Coral building is in need of major systems upgrades. For example, it needs to be seismically retrofitted in order to meet County safety standards as indicated in a report issued at our request by the Department of Public Works (DPW) just prior to the five-year extension in 2005. The Board's policy requires buildings that are leased or re-leased for occupancy by County employees meet a seismic safety standard. Based on DPW's report, it may be unsafe to remain in this building which presents a serious liability for the CDC.

The electrical feed to the building is under-sized and as our technology needs increase, we continue to incur expenses for electrical upgrades. Additionally, it does not have emergency back-up power, which has led to down time and loss of productivity during power shortages.

The HVAC system is over 30 years old and breaks down all too frequently. In short, the building exhibits signs of functional obsolescence and lacks modern amenities as a result of the owner's failure to make needed capital improvements over time.

Although the lease is triple net, it is the Lessor's responsibility to replace capital improvements with a useful life in excess of five-years. After spending close to \$200,000 over the last two years in HVAC repairs, I requested the Miller Brothers to undertake the replacement of six units and boiler systems that were the subject of repeated emergency repairs. This request was essentially denied. This is consistent with a history by this Landlord to shift responsibility for capital replacements to CDC. I have been advised that a few years ago we had to shoulder the expense of a roof replacement at a cost in excess of \$100,000.

Alternate Office Space - 1515 Walnut Grove, Rosemead

Although the Miller Brothers will not consider a 2 ½ year lease extension, we have made a comparison between the anticipated costs of remaining at Coral over a proposal we recently received for a twenty-six month lease at the Walnut Grove location. The building was formerly occupied by Countrywide. It is important to note that this is just the landlord's initial proposal; the economics of which we believe can be improved upon through negotiations. Based on the proposed lease rate and after including all our estimated capital and moving expenses at the new location, we find that substantial savings are achievable over the 26 months. In addition, we have been offered a full service lease, where all operating expenses are paid by the Landlord thereby eliminating our exposure to further building expenses.

The following documents are attached for your review:

1. Preliminary Cost Analysis
2. Chronology of Lease Negotiations
3. Letter requesting HVAC replacement – July 30, 2009

Each Deputy  
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4. Letter from Bill Coghlan rejecting HVAC request and referencing 5-year lease extension – August 18, 2009
5. Letter to Mr. Coghlan offering 2 ½ lease amendment – September 3, 2009
6. Letter from Mr. Coghlan rejecting 2 ½ year lease extension and offering \$1.35 – \$1.45 – September 18, 2009
7. Memorandum to the Board – December 8, 2009

Please let me know if you would like to discuss these findings in detail.

SR:BG

Attachments

**PREPARED FOR: COMMUNITY DEVELOPMENT COMMISSION  
EXECUTIVE SUMMARY  
PROPOSAL COMPARISON ANALYSIS  
FOR THE TWENTY-SIX (26) MONTH PERIOD COMMENCING APRIL 1, 2010**



**1. Five (5) Year Miller Proposal**

Coral Building  
2 Coral Circle  
Monterey Park, CA

**2. 26 Month 1515 Walnut Grove Ave. Initial Proposal**

Walnut Grove Office Campus  
1515 Walnut Grove Ave.  
Rosemead, CA

**3. 26 Month 1515 Walnut Grove Ave. Counter Proposal**

Walnut Grove Office Campus  
1515 Walnut Grove Ave.  
Rosemead, CA

**4. 26 Month Projected 2 Coral Circle Costs Based on Five (5) Year Miller Proposal**

Coral Building  
2 Coral Circle  
Monterey Park, CA

KEY ASSUMPTIONS				
RENTABLE SQUARE FOOTAGE	85,300	76,200	76,200	85,300
TOTAL OCCUPANCY COST				
BASE RENT	\$7,879,926	\$3,632,244	\$3,368,040	\$3,275,401
OPERATING EXPENSES	\$5,118,000	\$38,394	\$38,394	\$2,217,800
MAINTENANCE PERSONNEL EXPENSES	\$565,500	\$0	\$0	\$245,050
SECURITY GUARD EXPENSES	\$176,590	\$0	\$0	\$76,522
<b>Required Capital Expenses</b>				
SEISMIC RETROFIT EXPENSES	\$1,900,000	\$0	\$0	\$1,900,000
HVAC MAINTENANCE EXPENSES	\$287,500	\$0	\$0	\$287,500
CARPET EXPENSES	\$200,000	\$0	\$0	\$200,000
PARKING LOT EXPENSES	\$53,600	\$0	\$0	\$53,600
<b>Capital/Moving Expenses</b>				
TENANT IMPROVEMENT EXPENSES	\$0	\$1,591,120	\$1,591,120	\$0
TENANT IMPROVEMENT ALLOWANCE	\$0	(\$381,000)	(\$1,143,000)	\$0
MOVING EXPENSES	\$0	\$254,903	\$254,903	\$0
<b>TOTAL OCCUPANCY COST</b>	<b>\$16,181,116</b>	<b>\$5,135,661</b>	<b>\$3,720,837</b>	<b>\$8,255,874</b>
<b>MONTHLY NET EFFECTIVE OCCUPANCY COST PER RSF</b>	<b>\$3.16</b>	<b>\$2.59</b>	<b>\$1.88</b>	<b>\$3.72</b>
NET PRESENT VALUE				
<b>NET PRESENT VALUE @ 8.0%</b>	<b>\$13,384,557</b>	<b>\$4,709,603</b>	<b>\$3,345,584</b>	<b>\$7,579,443</b>
<b>MONTHLY NPV EFFECTIVE OCCUPANCY COST PER RSF</b>	<b>\$2.62</b>	<b>\$2.38</b>	<b>\$1.69</b>	<b>\$3.42</b>

**FOOTNOTES:**

- Operating Expenses** - 2 Coral Circle's operating expenses on a net lease are approximately \$1.00/RSF per month based on actual costs provided by the CDC. 1515 Walnut Groves's operating expenses on a full service gross lease are \$0.90/ RSF per month based upon information provided by the Landlord.
- Maintenance Personnel Expenses** - Maintenance personnel expenses are \$113,100 annually for the two (2) maintenance personnel.
- Security Guard Expenses** - Security guard expenses are \$35,318 annually.
- Required Capital Expenses** - 2 Coral Circle's required capital expenses were provided by CDC. 1515 Walnut Grove's has no capital expenses to CDC.
- Capital/Moving Expenses** - Construction expenses were estimated at \$16.60/RSF. CDC provided the estimates for cabling and IT moving expenses.
- Please note the Landlord's proposal is an initial offer with the potential to further reduce the costs via negotiations.

### Chronology of Actions Related to the Lease Renewal

May 28, 2009	CDC staff met with Miller Bros. advising of our interest in extending Coral Circle lease for <b>2 ½ years through June 30, 2012</b> . CDC plans needs assessment and research to determine market lease rates.
July 22, 2009	"Meet & Greet" with Sean Rogan, CDC staff, Miller Bros., and Bill Coghlan. CDC reiterates intent to extend lease for <b>2 ½ years</b> .
July 30, 2009	Letter to Mr. Coghlan requesting replacement of obsolete HVAC system. Letter states that CDC has spent \$200,000 in repairs in HVAC and boiler system repairs.
August 18, 2009	Letter from Mr. Coghlan indicating that CDC is contemplating <b>five-year</b> lease extension.
September 3, 2009	Letter to Mr. Coghlan offering Lease Amendment and Agreement for <b>2 ½ years at \$1.00/square foot</b> .
September 18, 2009	Letter from Mr. Coghlan rejecting <b>2 year</b> term and lease rate. Offered nnn renewal rate between <b>\$1.35 - \$1.45</b> .
November 2, 2009	Letter to Mr. Coghlan designating Newmark Knight Frank as broker representative authorized to negotiate on behalf of CDC.
November 12, 2009	CDC broker reps met with Miller Bros. and Mr. Coghlan. Discussed lease renewal terms and possible Coral building expansion. Miller Bros. and Mr. Coghlan requested future meeting with CDC.
November 19, 2009	Letter from Mr. Coghlan acknowledging meeting with broker reps and indicating interest in meeting with CDC to discuss possible Coral building expansion.
November 30, 2009	CDC staff and broker reps met with Mr. Coghlan and Arlen Miller. Staff confirmed our intent to limit lease renewal for <b>2 ½ years only</b> . Staff asked is Miller Bros. might be interested in expanding Coral building to accommodate Santa Fe Springs staff, but they did not provide a direct response.

December 1, 2009

Letter from Mr. Coghlan as follow up to Nov. 30<sup>th</sup> meeting. Requested written notification within 5 days that we will not renew lease for 5 years. (The lease only requires written notice by December 24, 2009 if we intend to renew the lease.)

December 8, 2009

Letter to Mr. Coghlan clarifying purpose of November 30<sup>th</sup> meeting and restating intent to renew the lease for **2 ½ years**.



**COMMUNITY DEVELOPMENT COMMISSION  
of the County of Los Angeles**

2 Coral Circle • Monterey Park, CA 91755  
323.890.7001 • TTY: 323.838.7449 • [www.lacdc.org](http://www.lacdc.org)



**Gloria Molina  
Mark Ridley-Thomas  
Zev Yaroslavsky  
Don Knabe  
Michael D. Antonovich**  
*Commissioners*

**Sean Rogan**  
*Executive Director*

July 30, 2009

Mr. William J. Coghlan  
Director of Acquisitions  
Miller Brothers Coral Circle, LLC  
4232-8 Las Virgenes Road, Suite 101  
Calabasas, CA 91302

**SUBJECT: 2 CORAL CIRCLE, MONTEREY PARK**

Dear Mr. Coghlan:

Following our meeting last week, I directed staff to undertake an analysis of costs associated with the maintenance and operation of the HVAC system. Apparently, the majority of our problems are caused by the units that serve the first floor of the building. The study revealed that during the past two and a half years, the Commission has spent nearly \$200,000 in repairs to six (6) package units and boiler system that is well past its useful economic life. These components date back to 1981-82.

In the past, in an effort to minimize down time and inconvenience to our employees, the Commission has contracted directly with vendors to effect emergency repairs as needed. Nevertheless, the amount of down time has gradually escalated to the point where it has become unacceptable.

For example, a couple of months ago the West 40-ton unit sprung a leak and was down for 2 weeks. That was the latest in a series of age-related leaks that particular unit has suffered during the last couple of years. Our records indicate that emergency repairs were made in July 2007, November 2008, March 2009 and again in May. The total down time for that unit alone exceeds 5 weeks. Additionally, in December 2008, the compressor leaked water into the system and all thermostat controls for the first floor were damaged and had to be replaced. The system was not operational for 2 weeks.

In retrospect, it is clear that instead of making these temporary but costly repairs, the units should have been replaced. Also, it is likely that the cumulative costs incurred by the Commission in emergency repairs over the period under examination, exceed the replacement cost of the system.

Mr. William J. Coghlan  
July 29, 2009  
Page Two

Therefore, in the spirit of our discussion during the July 22nd meeting, please consider this letter as our formal request that you initiate the replacement of these obsolete units at your earliest convenience. Based on the historic vulnerability of the system to continued breakdowns, time is of the essence.

The Commission appreciates your kind attention to this matter. Please call me or Carlos Brea at (323) 890-7201 should you need to discuss this matter further.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Rogan", with a long horizontal stroke extending to the right.

SEAN ROGAN  
Executive Director



Effingham Homes, Inc.  
Miller Brothers Acquisitions, LLC  
Miller Brothers Coral Circle, LLC  
Miller Brothers DVR Residential, LLC  
Miller Brothers DVR Town Center, LLC



*The Miller Family Companies*

42328 Las Virgenes Road, Suite 101  
Calabasas, California 91302  
818 871-2900 fax 818 871-2901  
[www.millerfamilycos.com](http://www.millerfamilycos.com)

Miller Brothers Eureka Road One, LLC  
Miller Brothers Eureka Road Two, LLC  
Miller Brothers Investments, LLC  
Miller Brothers Scripps Summit, LLC  
Milligan Investment Co., Inc



August 18, 2009

Mr. Sean Rogan  
Executive Director  
**COMMUNITY DEVELOPMENT COMMISSION**  
2 Coral Circle  
Monterey Park, CA 91755

Dear Mr. Rogan:

Thank you for your letter dated July 30, 2009 regarding the maintenance and operation of the HVAC system at 2 Coral Circle. As we are fast approaching the renewal date for the Lease, this will certainly be a point for discussion. We were told, by Carlos Brea at our May 28, 2009, that the County's "Needs Assessment" was underway and that this is the initial step in determining if CDC is going to exercise its option to extend for another five years per the terms of the Lease. As soon as we are made aware of the County's intentions with respect to 2 Coral Circle, we can discuss issues such as the HVAC system and what is appropriate for your specific needs.

A total removal and replacement of the HVAC system would far exceed the cost of repairs cited in your letter, especially given the remaining term of the current lease. While the replacement may seem like an immediate fix, we would need to look at any cost in the context of your needs as well as the market in general, should we need to re-lease the building. The suggested replacement of the existing HVAC system would require an engineered solution including considerations for improved distribution and efficiency.

We value the CDC as a tenant and have always had a great working relationship. We look forward to continuing that relationship and working with you and Carlos to address the *Needs Analysis*, once it is completed and communicated.

Regards,

**Miller Brothers Coral Circle, LLC**

William J. Coghlan



**COMMUNITY DEVELOPMENT COMMISSION  
of the County of Los Angeles**

2 Coral Circle • Monterey Park, CA 91755  
323.890.7001 • TTY: 323.838.7449 • [www.lacdc.org](http://www.lacdc.org)



**Gloria Molina  
Mark Ridley-Thomas  
Zev Yaroslavsky  
Don Knabe  
Michael D. Antonovich**  
*Commissioners*

**Sean Rogan**  
*Executive Director*

September 3, 2009

Mr. William J. Coghlan  
Director of Acquisitions  
Miller Brothers Coral Circle, LLC  
4232-8 Las Virgenes Road, Suite 101  
Calabasas, CA 91302

**SUBJECT: 2 CORAL CIRCLE, MONTEREY PARK  
LEASE EXTENSION**

Dear Mr. Coghlan:

Earlier this year, on May 28<sup>th</sup>, my staff met in your office to begin discussions on a lease extension. At that time, they indicated the Commission's interest in extending the lease through June 3, 2012, in order to make the term co-terminus with our other facility lease in the City of Santa Fe Springs. There was also some discussion about our current rent rate and the need to reach a mutually satisfactory resolution about what an appropriate adjustment may be, given the current state of the market.

It was agreed that sufficient market information is readily available and, rather than engage separate appraisers, we would both conduct our own independent investigation and reconvene at a later time to attempt to negotiate a fair rent.

During the three months that have elapsed since that meeting, we have had multiple conversations with a number of real estate professionals knowledgeable in the market generally, and the Monterey Park - San Gabriel Valley sub-market in particular. The overwhelming consensus is that rents are markedly down, inventories of available space are up, and Landlords are now willing to re-structure existing leases in order to retain tenants. Concessions in the form of tenant improvement allowances, and even extended periods of free rent are now commonly being offered.

In an effort to move this matter forward, and in the interest of time, we have drafted the attached Third Amendment to Lease and Agreement for your review and consideration. We believe the rent concession we are seeking is fair and equitable in the context of the current economy, and as a public agency, we are bound to consider all available options in order to reduce our costs to the extent possible.

William J. Coghlan  
September 3, 2009  
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It is my goal to get this matter concluded within the next thirty days. Therefore, receiving your feedback to the enclosed proposal is time-sensitive. Please feel free to call me directly at (323) 890-7400, or Carlos Brea at (323) 890-7201 should you require any additional information or clarification.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Rogan", followed by a horizontal line extending to the right.

SEAN ROGAN  
Executive Director

Attachment

**THIRD AMENDMENT TO LEASE AND AGREEMENT  
2 CORAL CIRCLE, MONTEREY PARK**

THIS THIRD AMENDMENT TO LEASE AND AGREEMENT, is made, entered and dated as of this \_\_\_\_\_ day of \_\_\_\_\_ 2009, by and between MILLER BROTHERS CORAL CIRCLE, LLC, a California limited liability company, hereinafter referred to as "Lessor" and the COMMUNITY DEVELOPMENT COMMISSION OF THE COUNTY OF LOS ANGELES, a body corporate and politic, hereinafter referred to as "Lessee".

WITNESSETH

WHEREAS, under a Lease and Agreement by and between McCaslin Properties, a California General Partnership, as Lessor, and the Community Development Commission of the County of Los Angeles, as Lessee, dated July 26, 1994 and amended by the First Amendment to Lease and Agreement, dated February 18, 1997, pursuant to which Lessor leased to Lessee those certain Premises located at 2 Coral Circle, Monterey Park, California, more particularly described as approximately 85,300 rentable square feet of office space and 323 surface parking spaces; and

WHEREAS, Miller Brothers Coral Circle, LLC, successor to McCaslin Properties, is now the Lessor, and retains all rights and responsibilities granted pursuant to Lease and Agreement dated July 26, 1994 and as amended by the First Amendment to Lease and Agreement dated February 18, 1997, and the Second Amendment to Lease and Agreement executed on or about May 10, 2005; and

WHEREAS, Lessor and Lessee desire to amend the terms of the Lease and Agreement to extend the term, and adjust the rental rate; and

WHEREAS, the terms of this Third Amendment will not become effective until such time as said Amendment is executed by all parties hereto.

NOW, THEREFORE, in consideration of the mutual benefits derived therefrom, it is agreed between the parties that the Lease and Agreement shall be amended as follows

1. Section 2, Term, of the Lease and Agreement shall be amended as follows:

Effective upon execution of this Amendment by the parties hereto the term of the Lease and Agreement is hereby extended from March 26, 2010 to June 3, 2012, unless otherwise extended, or terminated earlier in accordance with the conditions contained herein or in future Amendment(s) executed in writing between the parties.

2. Section 3, Base Rent, of the Lease and Agreement shall be amended as follows:

Effective upon execution of this Amendment by the parties hereto, and for the remainder of the term commencing March 27, 2010, the Lessee hereby agrees to pay for said Premises during each month of the extended term the Base Rent in the sum of Eighty-Five Thousand Three Hundred Dollars (\$85,300) per month.

The remainder of Section 3, Base Rent shall remain in full force and effect.

3. Wherever a conflict exists in the terms and conditions of this Third Amendment to Lease and Agreement for 2 Coral Circle, Monterey Park, and the original Lease and Agreement, the terms and conditions of this Third Amendment shall prevail. All other terms and conditions of the Lease and Agreement shall remain unchanged and are hereby reaffirmed to be in full force and effect.

IN WITNESS THEREOF, the Lessor has executed this Third Amendment to Lease and Agreement, and the Community Development Commission of the County of Los Angeles has caused this Third Amendment to be executed by the Executive Director, or his designee, on the day, month and year first above written.

LESSOR:  
MILLER BROTHERS CORAL  
CIRCLE, LLC

LESSEE:  
COMMUNITY DEVELOPMENT  
COMMISSION OF THE  
COUNTY OF LOS ANGELES

\_\_\_\_\_  
By

\_\_\_\_\_  
By: SEAN ROGAN

Title: \_\_\_\_\_

Title: EXECUTIVE DIRECTOR

APPROVED AS TO FORM:  
ROBERT E. KALUNIAN, County Counsel

\_\_\_\_\_  
By: Senior Deputy



## The Miller Family Companies

As you did, we also talked with knowledgeable real estate experts who specialize in the West San Gabriel Valley submarket – a market that is not as impacted as the Southern California suburban markets. David Fults of CBRE is one of the most active brokers and he specializes in this submarket; he prepared an analysis following our discussion with your staff members. David concluded that the current market rate for our building would be in the range of \$1.85 to \$1.95 per square foot on a full service gross basis. As our Lease is triple net (i.e. the rent is net of all expenses), this would equate to a renewal rate (nnn) in the

range of \$1.35 to \$1.45 per square foot. We are certainly willing to discuss or mutually negotiate a new rate that approximates the market rate but we cannot accept the unilateral decision of the CDC to impose a below market rate and term. Furthermore, if we can agree on a rate and term, our counsel will prepare the Third Amendment for review, again, subject to bilateral negotiations. We agree that the process, as prescribed by the Lease, can be somewhat protracted. Hopefully we can move through the process with better communications to facilitate a mutually beneficial outcome.

I am available at 818/871-2900 extension 16 (Tony Miller is extension 14 and Arlen Miller is extension 15) – we are generally available during business hours.

Regards,

**Miller Brothers Coral Circle, LLC**



**William J. Coghlan**



## **Community Development Commission**

December 8, 2009

To: Each Supervisor

From: Sean Rogan, Executive Director



**SUBJECT: COMMISSION/HOUSING AUTHORITY HEADQUARTERS BUILDING  
ACQUISITION**

The purpose of this memorandum is to advise you that we are engaged in negotiations, along with our broker representative, to extend the existing office lease at 2 Coral Circle in Monterey Park. The current lease will expire on March 26, 2010, and contains a five-year renewal option. However, we would like to extend this lease for 2 ½ years, to June 30, 2012, to coincide with the expiration of our lease at 12131 Telegraph Road in Santa Fe Springs, which houses our Housing Choice Voucher (Section 8) operations. Our goal is to consolidate our administrative operations at a single location. If we are unable to reach an agreement with the owners of 2 Coral Circle, we will be compelled to relocate to another location for 2 ½ years and are currently looking at interim lease options at other buildings in the Monterey Park area.

### **Status of Headquarters Acquisition**

In our previous status reports, we informed you that we would explore the opportunity to acquire our two buildings referenced above. The Coral Circle building consists of 85,300 square feet of administrative office space and the Telegraph Road building consists of 42,170 square feet of administrative office space.

Based on our current analysis, we have concluded that the consolidation of our operations under one roof will result in substantial economic benefits and lead to operational efficiencies. Therefore, we have been actively canvassing the market for a building, capable of meeting our consolidated space requirements, in the general vicinity of our Monterey Park headquarters location. We believe the current soft real estate market conditions provide a unique opportunity for the Commission to transition from long-term leasing of office space to securing an ownership position.

With the goal of housing all Commission and Housing Authority operations at a single location, we are investigating an array of options, including:

- Purchase of the Monterey Park building and add floor space and parking capacity
- Purchase of an existing stand-alone building
- Purchase of developable land and build a new facility



Each Supervisor  
December 8, 2009  
Page Two

All of the options outlined above require some discussion with HUD, and may require HUD approval of an administrative waiver. We are also evaluating various financing opportunities based on economic conditions and our budgetary position.

We will keep you informed of our progress. Should you have any questions, please feel free to contact me or Assistant Executive Director Bobbette Glover at (323) 890-7400.

SR:BG:dg

c: William T Fujioka, Chief Executive Officer  
Lari Sheehan, Deputy Chief Executive Officer  
Each Deputy